



# Republican Policy Committee

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## Eliminating the Welfare Trap

*The lessons of history, confirmed by the evidence immediately before me, show conclusively that continued dependence upon relief induces a spiritual and moral disintegration fundamentally destructive to the national fiber. To dole out relief in this way is to administer a narcotic, a subtle destroyer of the human spirit. It is inimicable to the dictates of sound policy. It is in violation of the traditions of America.*

Franklin D. Roosevelt  
Second Annual Message  
January 4, 1935

The U.S. taxpayers, along with the poor, should count themselves as the casualties of the three-decade "War on Poverty." Aggregate government spending on welfare programs during this period surpassed \$5.4 trillion (in constant 1993 dollars) according to some analysts.<sup>1</sup> Despite this spending, the national poverty rate remains at about the same level as in 1965, the year that President Johnson launched his Great Society welfare program.

The War on Poverty, in many ways, has brutalized the people it was designed to aid. Communities with high levels of welfare dependency have become associated with soaring crime rates, a greater incidence of child abuse and neglect, and intergenerational reliance on government handouts. The welfare system has trapped recipients in a cycle of dependency by effectively encouraging behavior that leads to long-term reliance on welfare such as giving birth to a child out-of-wedlock, and by discouraging behavior that is most likely to end the need for welfare, namely getting married or becoming gainfully employed.

### Welfare as We Know It: Long-Term and Intergenerational Dependency

Despite the well-meaning intention to provide welfare as a temporary assistance program, for many recipients welfare is a way of life.

- According to a 1986 study by David Ellwood, currently Assistant Secretary of the Department of Health and Human Services (HHS) for Planning and Evaluation, 82 percent of the Aid to Families with Dependent Children (AFDC) recipients who at a

given point in time are on the welfare rolls have been there for more than five years; 65 percent have been there for eight or more years.<sup>2</sup>

- Senator Moynihan, citing a recent study by the Urban Institute, has noted that the mean duration of time on the AFDC rolls is 12.98 years.<sup>3</sup>
- The welfare trap ensnares not only the current recipients, but their children as well. Young women who grow up in welfare families are more than twice as likely to receive welfare themselves as their counterparts whose parents received no welfare assistance.<sup>4</sup>

### ***Welfare Encourages Out-of-Wedlock Birth***

The welfare system has perpetuated a culture of dependency, particularly among unwed teenage mothers, by encouraging out-of-wedlock birth.

- The out-of-wedlock birth rate has exploded from 5.3 percent in 1960 to 33 percent in 1995. If the current rate of growth continues, over 50 percent of all births in our nation will be out-of-wedlock within a decade.
- A 1993 study entitled "Underclass Behaviors in the United States: Measurement and Analysis of Determinants" co-authored by Dr. June O'Neill (now Director of CBO) revealed that when variables such as income, parental education, and neighborhood were held constant, a 50 percent increase in the value of AFDC and Food Stamp benefits resulted in a 43 percent increase in the number of out-of-wedlock births.<sup>5</sup>
- About 50 percent of unwed teenage mothers receive welfare benefits within one year of having given birth. [Source: The 1994 Green Book, p.453].
  - These benefits, which include AFDC cash assistance, Food Stamps, Medicaid and housing subsidies, enable the children who have children to achieve "income" levels which are high enough to leave home and live independently from their parents.
  - According to a 1985 study Mary Jo Bane (now Assistant Secretary for the Administration for Children and Families at HHS) and David Ellwood entitled "AFDC Impact on Family Structure and Living Arrangements," unmarried mothers in states with high AFDC payments lived apart from their parents more often than unmarried mothers in states with low AFDC payments.<sup>6</sup>
- Children born out-of-wedlock are three times more likely to be on welfare when they grow up.<sup>7</sup>

## ***Welfare Discourages Marriage***

The current system creates a financial disincentive for low-income persons to marry. This systemic bias against marriage results in more women on the welfare rolls for longer periods of time.

- The most powerful predictor of long-term welfare dependence is marital status: single women average nine years of AFDC benefits, and 39 percent are predicted to receive AFDC for ten or more years [Source: The 1994 Green Book, p. 443].
- In certain communities where the social mores and values concerning marriage have broken down, women are more likely to act on the financial incentive to stay single, and thus remain on welfare, for the purpose of income maximization.

## ***Welfare Discourages Work***

Generous welfare benefits provide a viable alternative to sustained employment for many welfare recipients.

- According to an analysis of long-term welfare dependency by Douglas Besharov of the American Enterprise Institute, for many welfare mothers work simply does not pay:<sup>8</sup>
  - Average annual earnings in 1992 for an unwed mother of two children who is a high-school dropout working full time, was a net of \$15,583 if she was 18-24 years old and \$15,617 if she was 25-34 years old (in 1993 dollars). These figures include the Earned Income Tax Credit (EITC) and other means-tested programs that raise income as well as payroll taxes, state taxes, and work expenses, including child care, that lower income.
  - In contrast, the value of combined welfare benefits (AFDC, Food Stamps, Medicaid, WIC, and housing) for that same mother and her two children reached \$17,434, or \$13,127 without including the value of Medicaid benefits, in 1993 dollars.
  - Thus, in order to leave the welfare rolls for long-term employment, the mother must be willing to give up medical coverage (valued at \$4,307 in Medicaid), give up leisure time and give up the chance to hold a job in the underground economy to earn unreported income,<sup>9</sup> for only an additional \$1.35 an hour.
- The Seattle/Denver Income Maintenance Experiment (SIME/DIME), the longest (1971-1978) and most comprehensive study of the effect of welfare payments on work effort, found that every \$1. of extra welfare benefits reduced labor and earnings by an average of \$.80.
- The previously cited 1993 study co-authored by June O'Neill found that higher welfare

benefits increase the number of individuals who leave the labor force and enroll in welfare.

- A 50 percent increase in monthly AFDC and Food Stamp benefit levels was found to lead to a 75 percent increase both in the number of women enrolling in AFDC and in the number of years spent on AFDC.<sup>10</sup>
- A separate analysis of exits from the AFDC rolls done in 1993 indicates that by the end of five years about two-thirds of all women who leave AFDC for work return to the AFDC program [Source: The Green Book, p.450].

## **Six Battles Lost: Losing the War**

Washington has reinvented welfare six times, and each time it has failed to break the vicious cycle of welfare dependency. Centralized, bureaucratic, federal solutions have exacerbated, not mitigated, this problem. The most recent well-intentioned but misguided attempt "to end welfare as we know it" was The Family Support Act (FSA) of 1988 [Public Law 100-485].

- The FSA created five new entitlements: the Jobs, Opportunities and Basic Skills training program (JOBS); AFDC-Unemployed Parents (UP); AFDC Child Care; Transitional Child Care; and Transitional Medicaid.
- Under the provisions of the FSA, welfare beneficiaries can float from one job training and education program to another, or participate in a continual job search and remain on the welfare rolls indefinitely.
- Any attempt to sanction a recipient for noncompliance to a work requirement in one program simply results in an increase in benefits from another program. For example, a decrease in AFDC cash benefits results in a decrease in "income," and therefore an increase in other means-tested benefits, such as Food Stamps.
- In theory, loosening AFDC eligibility requirements and increasing spending was supposed to move people from welfare to work. In practice, these changes generated the opposite effect.
  - At the time of enactment, it was predicted that the number of families on AFDC would reach 5 million in late 1998. In fact, that level was reached in 1993.
  - Although there was a \$6 billion increase in AFDC benefits alone between 1988 and 1993, there was a nearly 2 percent rise in the poverty rate.
  - In 1992, 57 percent of AFDC beneficiaries were exempt from the work requirements; less than 7 percent of welfare recipients actually worked for their

benefits.

- While Senator Moynihan has stated that AFDC caseloads have declined over the past year (May 1994-May 1995) by 240,000 cases or 4.7 percent,<sup>11</sup> there is **no** evidence that this is due to large numbers of recipients leaving welfare for work. In some cases it may be due to recipients switching to more generous welfare programs.
- During this same period, the disabled category of the Supplemental Security (SSI) rolls increased by 280,392 persons [Source: CRS].
  - It is possible that some of the decrease in the AFDC rolls may be the result of cost-shifting by states: in cases where a recipient may qualify for both AFDC and SSI, the state has an economic incentive to shift that person from AFDC (for which states pay, on average, 45 percent of benefit costs and pay 50 percent of administrative costs) to SSI which is fully federally funded and administered.
  - The GAO reported that many state and local governments have tried to enroll recipients of other welfare programs in SSI instead: for example, five states reported generating gross savings of about \$90 million in a given year by helping to enroll in SSI nearly 26,000 individuals receiving state benefits.<sup>12</sup>
  - Furthermore, the average SSI payment tends to be three times higher, so the recipient has an incentive to switch as well.
  - In fact, the HHS Inspector General studied a sample of the 518,000 children on SSI in 1992 and projected that 58 percent were receiving AFDC benefits at the time of their SSI applications.<sup>13</sup> Once these children were accepted onto the SSI rolls, their AFDC benefits were terminated.

## **Breaking the Cycle of Welfare Dependency**

For the past three decades, Congress has attempted to manage a welfare system, designed to provide temporary assistance to those in need, by adding entitlement programs, loosening eligibility criteria and spending trillions of hard-earned tax dollars. Despite the best of intentions, the result of these efforts is a program which serves to trap welfare recipients in a culture of dependency. The current welfare system, which encourages giving birth out of wedlock and discourages marriage and gainful employment, is fundamentally flawed. The federal government has acted as an enabler by providing financial incentives for behavior that has engendered long-term and intergenerational reliance on government handouts.

Once again, the liberals have responded to the welfare crisis with a plan which adds more entitlements and spends more of the taxpayers' money. The Daschle bill introduces more of the same old Big Government "remedies" that have failed us for 30 years; in the

name of liberal compassion a whole new generation would become mired in poverty. In contrast, the Senate leadership's Work Opportunity Act of 1995 charts a new course by allowing the states the flexibility they need to encourage self-sufficiency.

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## Endnotes

1. Robert Rector and William F. Lauber, *America's Failed \$5.4 Trillion War on Poverty*, The Heritage Foundation, Washington, DC (1995), p.2 .
2. David Ellwood's 1986 updated version of Bane, Mary Jo and Ellwood, David T., *The Dynamics of Dependence: The Routes to Self-Sufficiency*. Prepared for the U.S. Department of Health and Human Services under contract No. HHS-100-82-0038, June 1983, as found in Committee on Ways and Means, *The 1994 Green Book: Background Materials and Data on Programs Within the Jurisdiction of the Committee on Ways and Means*, (Washington, D.C.: U.S. GPO, 1994), p. 441.
3. Senator Moynihan, *The Congressional Record*, Vol. 141, No. 131, August 7, 1995, S11741.
4. Reanalysis by the Committee on Ways and Means staff based on data from: Hill, Martha S. and Ponza, Michael. *Does Welfare Dependency Beget Dependency?* Institute for Social Research, mimeo, Fall 1984, as found in *The 1994 Green Book*, p.449.
5. M. Anne Hill and June O'Neill, *Underclass Behaviors in the United States: Measurement and Analysis of Determinants* (New York: CUNY, Baruch College, August 1993), research funded by Grant No. 88ASPE201A, HHS, as cited in Rector, p. 28.
6. As cited in Charles Murray, "Welfare and the Family: The U.S. Experience," *Journal of Labor Economics*, 1993, vol. 11, no.1, pt. 2, p. S225-6; It should be noted that this study shows no significant correlation between benefit levels and out-of-wedlock birth rates (5% increase in unwed mother per \$100 increase in monthly benefits). However, Murray cites Winegarden (1988); Ozawa (1989); Bernstam (1988); Plotnik (1990); and Lundberg and Plotnik (1990) as studies which found that the level of benefits is significantly related to out-of-wedlock birth rates among certain populations.
7. Kristin Moore, "Attainment among Youth from Families That Received Welfare," paper for HHS/ASPE and NICHD, Grant #HD21537-03 as cited in Patrick F. Fagan, "Rising Illegitimacy: America's Social Catastrophe," *The Heritage Foundation FYI*, June 29, 1994, p.7.
8. Douglas J. Besharov, "Using Work to Reform Welfare," *Public Welfare*, Summer 1995, p. 18.
9. Besharov cites a study by Kathryn Edin and Christopher Jencks ["The Real Welfare Problem," *The American Prospect* (Spring 1990): 31] of 152 welfare recipients in Chicago, Ill.; Charleston, S.C.; and Cambridge, Mass. which found that AFDC and food stamps accounted for only 57 percent of their incomes. The remainder came from friends, relatives, and absent fathers (21 percent); unreported work (10 percent); SSI and foster care (6 percent); illegal activities (3 percent); and other (3 percent).
10. As cited in Rector, p. 26
11. Senator Moynihan, *The Congressional Record*, Vol. 141, No. 131, August 7, 1995, p. S11743; OFA/ DPE data suggest that 520,000 recipients left the AFDC rolls between May 1994 and May 1995.
12. Jane Ross, Director, Income Security Issues, GAO, "SSI: Recipient Population Has Changed as Caseloads Have Burgeoned," statement before the Senate Finance Committee, March 27, 1995, p.9.
13. Rep. Gerald Kleczka (D-Wis), statement before the House of Representatives Committee on Ways and Means, Subcommittee on Human Resources, October 14, 1993.